

Service Date: June 21, 1994

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	
of PACIFICORP for Authority to)	UTILITY DIVISION
Issue and Sell Debt and No Par)	DOCKET NO. 94.6.23
Serial Preferred Stock in an)	DEFAULT ORDER NO. 5792
Amount Not to Exceed)	
\$150,000,000.)	

On June 1, 1993, PacifiCorp (Applicant, PP&L) a corporation organized and existing under and by virtue of the laws of the State of Oregon and qualified to transact business in Montana, filed with the Montana Public Service Commission its verified application, pursuant to §§ 69-3-501 through 69-3-507, MCA, requesting an order authorizing the Company to issue and sell, in one or more offerings, not later than December 31, 1994, (i) not more than \$150,000,000 of units (Purchase Units) consisting of fixed-rate unsecured debt and contracts to purchase fixed-rate No Par Serial Preferred Stock, or (ii) shares of its fixed-rate No Par Serial Preferred Stock, or (iii) a combination of Purchase Units and shares of No Par Serial Preferred Stock, provided that the aggregate preference on involuntary liquidation of the Preferred Stock issued or issuable hereunder not exceed \$150,000,000. On June 15, 1993, the Commission issued Default Order No. 5710 approving PP&L's request.

On March 14, 1994, PP&L filed an amending application requesting deletion of the authority to issue Purchase Units granted in Default Order No. 5710, and substituting for it authority to borrow certain funds, to guaranty certain obligations and to assume certain liabilities, all in connection with a proposed issuance of fixed-rate preferred stock

or equivalent by a newly created special purpose subsidiary (SPC). On March 29, 1994, the Commission granted PP&L's request in Docket No. 94.3.13, Default Order No. 5780.

On June 6, 1994, PP&L filed an amendment to the authority granted in Docket No. 94.3.13 to provide for (1) the issuance of adjustable rate preferred stock either directly by PP&L indirectly through a SPC, or a combination thereof and (2) the issuance of unsecured debt by PP&L to the holders of the SPC's preferred stock or its equivalent in exchange for such stock or equivalent under certain circumstances. Additionally, PP&L requests that the authorities be extended to December 31, 1995.

The application is supported by exhibits and data in accordance with the rules and regulations of the Commission governing the authorization of the issuance of securities by electric and gas utility companies operating within Montana.

For detailed information with respect to the general character of PP&L's business and the territories served by it, reference is made to its annual reports on file with the Commission.

The application sets forth Counsel who will pass upon the legality of the proposed issuance, the other regulatory authorizations required, and the propriety of the proposed issue.

At a regular open session of the Montana Public Service Commission held in its offices at 1701 Prospect Avenue, Helena, Montana, on June 20, 1994, there came before the Commission for final action the matters and things in Docket No. 94.6.23, and the Commission, having fully considered the application and all the data and records pertaining to it on file with the Commission and being fully advised in the premises, makes the following:

FINDINGS

1. PP&L is a corporation organized and existing under and by virtue of the laws of the State of Oregon and is qualified to transact business in the State of Montana.

2. PP&L is operating as a public utility as defined in § 69-3-101, MCA, and is engaged in furnishing electric service in Montana.

3. PP&L was incorporated under Oregon law in August 1987 for the purpose of facilitating consummation of a merger with Utah Power & Light Company, a Utah corporation, and changing the state of incorporation of PacifiCorp from Maine to Oregon. PP&L uses the assumed business names of Pacific Power & Light Company and Utah Power & Light Company within their respective service territories located in the states of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming.

4. The Commission has jurisdiction over the subject matter of the application under § 69-3-102, MCA.

5. Notice of the application was published as a part of the Commission's regular weekly agenda.

6. PP&L proposes, from time to time not later than December 31, 1995, (i) to issue and sell shares of fixed or floating rate No Par Serial Preferred Stock provided that the aggregate preference upon involuntary liquidation of said preferred stock not exceed \$150,000,000, (ii) to borrow not to exceed \$190,000,000, guarantee obligations and assume liabilities, all in connection with the issuance by a special purpose subsidiary (including a corporation, partnership or limited liability company) of not to exceed \$150,000,000 of fixed or floating rate preferred stock or its equivalent, substantially in accordance with the terms set forth in PP&L's amended application, including the provision for exchange of an equal principal amount of its subordinated debt for the

securities issued and sold by the special purpose subsidiary, or (iii) to exercise both such authorities provided that the aggregate preference on involuntary liquidation of any preferred stock issued by PP&L and any preferred stock or equivalent issued by a special purpose subsidiary not exceed \$150,000,000.

7. As amended, the SPC would issue shares of fixed or floating rate preferred stock or its equivalent with an aggregate preference upon liquidation of not to exceed \$150,000,000. Under the loan agreement with the SPC, PP&L will be obligated to pay monthly interest at a fixed or floating rate that will be sufficient to permit timely payment of dividends on the preferred shares issued by the SPC and principal payments in amounts and at times sufficient to permit timely and full payment of all amounts payable by the preferred shares issued by the SPC. In addition, under certain circumstances PP&L could exchange its subordinated debt for the SPC's preferred stock. These additional features regarding the issuance of preferred stock are described more fully below.

8. PP&L has previously issued floating rate preferred stock in the form of auction rate preferred stock (ARPS). The ARPS product has several distinguishing features which PP&L believes make ARPS more favorable than the auction preferred product. Because the ARPS dividend rate is reset through an index rather than through an auction procedure, PP&L would not be subject to the risk of a failed auction. ARPS are sold primarily to individuals as an alternative to money market investments and to institutions that take advantage of the dividends received deduction. Therefore, the ARPS market has a broader investor base than the auction preferred market, which consists primarily of corporate money managers. Because ARPS lack the credit risk of the auction preferred, the rating agencies consider ARPS to have equity characteristics similar to

fixed-rate perpetual preferred stock. Also, PP&L believes that the sale of additional auction rate preferred stock would adversely affect the pricing of PP&L's existing auction preferred stock series.

9. In Docket No. 94.5.13, PP&L requested authority to borrow the proceeds of a fixed-rate preferred stock issued by a special purpose subsidiary. Because of the unfavorable market conditions that have recently developed, the market for fixed-rate long-term securities is not as attractive. As a result of the price volatility, investors are more concerned with preservation of the principal of their investment rather than with maximizing the income derived from the investment. Therefore, investor acceptance has increased for securities that have adjustable rate features. Investors are willing to accept lower yielding investments with the potential for more favorable yields in the future. As the market for the fixed-rate SPC preferred stock has deteriorated, bankers have advised PP&L that an identical structure involving the issuance of ARPS by the SPC (SPC ARPS) would be favorably received by investors. Although PP&L is not aware that any such SPC APS has been issued, it believes that the issuance of an SPC ARPS may result in attractive equity capital.

10. Recently, issuers have become increasingly concerned regarding the risk that the Internal Revenue Service would deny the deduction for interest paid on the loan from an SPC. In order to protect this interest deduction and the low after-tax cost of this product, issuers have added a feature that would permit the parent to exchange its subordinated debt for the SPC preferred stock. The SPC's loan to the parent would be extinguished and the investor would own the parent's subordinated debt with the same general terms and conditions as the SPC loan. PP&L believes that this feature would not result in any additional cost to PP&L would not affect the rating agency treatment of the

product and would reduce the risk that this financing would need to be refunded because of an unfavorable ruling by the IRS. Therefore, PP&L requests that it be authorized to include the debt exchange feature as part of the terms and conditions for any SPC preferred stock or equivalent it may issue.

11. The proposed securities are expected to be issued in one or more offerings, from time to time not later than December 31, 1995.

12. All other terms and conditions of Docket Nos. 93.6.21 and 94.3.13 remain the same.

13. The net proceeds of the issuances will be used to acquire utility property, to construct, extend or improve its facilities, to improve or maintain its service or to reimburse its treasury for funds expended from income and from other treasury funds that were not derived from the issuance of securities and were used for the foregoing purposes (other than for maintenance of service or replacements). The expenditures to be reimbursed were made for a utility purpose. See § 69-3-501, MCA. To the extent that the funds to be reimbursed were used for the discharge or refunding of obligations, those obligations or their precedents were originally incurred in furtherance of a utility purpose.

14. The proposed issuances are part of an overall plan to finance the cost of PP&L's facilities taking into consideration prudent capital ratios, earnings coverage tests and market uncertainties as to the relative merits of the various types of securities PP&L could sell.

15. The issuance of an order authorizing the proposed financing does not constitute agency determination/approval of any issuance-related ratemaking issues which issues are expressly reserved until the appropriate proceeding.

CONCLUSIONS OF LAW

1. The proposed issuances to which the application relates will be for lawful objects within the corporate purposes of PacifiCorp. The method of financing is proper.
2. The application should be approved.

ORDER

IT IS THEREFORE ORDERED by the Commission that:

1. The application of PacifiCorp filed on June 6, 1994, for authority to issue shares of its fixed or floating-rate No Par Serial Preferred Stock with an aggregate preference on involuntary liquidation of not to exceed \$150,000,000, pursuant to §§ 69-3-501 through 69-3-507, MCA, and to use the proceeds as described in the application, is approved.
2. The application of PacifiCorp to, from time to time not later than December 31, 1995, (i) borrow not to exceed \$190,000,000, (ii) guarantee obligations and (iii) assume liabilities, all in connection with the proposed issuance by a special purpose subsidiary (including a corporation, partnership or limited liability company) of not to exceed \$150,000,000 of fixed or floating-rate preferred stock or its equivalent substantially as described in PacifiCorp's application, including the provision for exchange of an equal principal amount of its subordinated debt for the securities issued and sold by the special purpose subsidiary, is hereby approved.
3. PacifiCorp may exercise the separate authorities granted above or both of such authorities provided that the aggregate preference on involuntary liquidation of any

Preferred Stock issued by PacifiCorp and any preferred stock or its equivalent issued by a special purpose subsidiary not exceed \$150,000,000.

4. The terms and conditions stated in Docket Nos. 93.6.21 and 94.3.13 remain in full force and effect.

5. PacifiCorp shall file the following as they become available:

- a. The "Report of Securities Issued" required by 18 CFR 34.10.
- b. Verified copies of any agreement entered into in connection with any transaction pursuant to this Order.
- c. A verified statement setting forth in reasonable detail the disposition of the proceeds of each offering made pursuant to this Order.

6. Issuance of this Order does not constitute acceptance of PacifiCorp's exhibits or other material accompanying the application for any purpose other than the issuance of this Order.

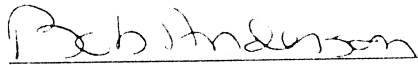
7. Approval of the transaction authorized shall not be construed as precedent to prejudice any future action of this Commission.

8. Section 69-3-507, MCA, provides that neither the issuance of securities by PacifiCorp pursuant to the provisions of this Order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed, or guaranteed.

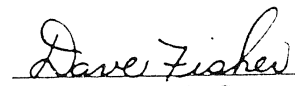
9. This Order shall be effective upon execution.

DONE IN OPEN SESSION at Helena, Montana, this 20th day of June, 1994, by a
5 to 0 vote.


BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION


BOB ANDERSON, Chairman

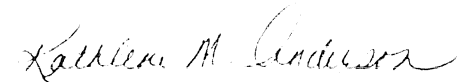

BOB ROWE, Vice Chairman


DAVE FISHER, Commissioner


NANCY McCAFFREE, Commissioner


DANNY OBERG, Commissioner

ATTEST


Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.